

Northern Pipeline Agency

2009-10

Departmental Performance Report

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Minister of Natural Resources

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Commissioner's Message

It is my pleasure to present the 2009-10 Departmental Performance Report for the Northern Pipeline Agency (NPA).

The Northern Pipeline Agency was established in 1978 to facilitate the planning and construction of the Canadian portion of Foothills Pipe Line's Alaska Highway natural gas pipeline project, and to maximize social and economic benefits while minimizing adverse social and environmental effects.



Although the prebuild portion of the project was constructed in southern B.C., Alberta, and Saskatchewan in the 1980s for the export of Canadian natural gas, the northern portion of the project was never completed, for economic reasons. The Foothills project is now owned by TransCanada PipeLines Limited (TransCanada).

In late 2008, TransCanada was selected by the State of Alaska under the *Alaska Gasline Inducement Act* (AGIA) to receive up to \$500 million in State assistance to pursue an Alaska Highway natural gas pipeline, called the Alaska Pipeline Project. The large-scale project would transport 4-5 billion cubic feet per day of natural gas in a 48-inch, high-pressure pipeline from Prudhoe Bay, Alaska, to markets in Canada and the lower 48 states. TransCanada has estimated project costs to be \$32 to \$41 billion, of which roughly \$15 billion would be for pipeline construction in Canada. TransCanada has indicated that it is proceeding with planning and development to complete the Foothills pipeline system in Canada.

In early 2010, TransCanada received approval from the United States *Federal Energy Regulatory Commission* (FERC) to conduct an "open season" in the United States in May-July 2010, to determine the level of commercial interest in the project. A similar commercial process was undertaken in Canada in the same timeframe. TransCanada has indicated receiving a positive response to its open season, although full details are not expected until the end of 2010 or early 2011, given the ongoing commercial negotiations with potential shippers.

During 2009-10 the Agency continued to prepare to deliver on the responsibilities of the Government of Canada that are embodied in the *Northern Pipeline Act* and associated agreements by working with TransCanada and with federal agencies, provincial and territorial governments and with First Nations. The Agency saw an increase in its human resources in 2009-2010 to four full-time equivalent positions as activity under the *Act* increased.

Cassie Doyle
Commissioner, Northern Pipeline Agency

SECTION I: DEPARTMENTAL OVERVIEW

Raison d'être

The Northern Pipeline Agency was created by special legislation in 1978 to facilitate the efficient and expeditious planning and construction in Canada of the Alaska Natural Gas Transportation System by Foothills Pipe Lines Limited. The system was to carry natural gas discovered at Prudhoe Bay, Alaska, to Canada and the lower 48 states. Foothills is now owned by TransCanada PipeLines.

The Agency's activity level peaked in 1981–1982 during the construction of the "Prebuild" portion of the project in southern Alberta, British Columbia and Saskatchewan. At that time, the Agency had more than 100 employees involved in policy and planning, socio-economic and environmental assessment, scheduling and regulation, and engineering and design. The Prebuild currently transports Alberta natural gas for export to the United States.

In 1982, low natural gas prices relative to the cost of completing the pipeline system led the project sponsors to put the Northern portion of the project on hold. The Agency in turn shrank to a skeleton organization, which oversaw approvals of expansions to the existing pre-build facilities.

Currently, the Agency administers the *Northern Pipeline Act* and the Agreement between Canada and the United States on the Principles Applicable to a Northern Natural Gas Pipeline, provides advice, and prepares for the completion of the Foothills project.

Responsibilities

Under Section 4 of the *Northern Pipeline Act*, the Northern Pipeline Agency can be called to undertake a number of activities:

- facilitate the efficient and expeditious planning and construction of the pipeline taking into account local and regional interests, the interests of the residents, particularly Native peoples, and recognizing the responsibilities of the Government of Canada and other governments, as appropriate, to ensure that any native claim related to the land on which the pipeline is to be situated is dealt with in a just and equitable manner;
- facilitate, in relation to the pipeline, consultation and coordination with the governments of the provinces, the Yukon Territory and the Northwest Territories;
- maximize the social and economic benefits from the construction and operation of the pipeline while at the same time minimizing any adverse effect on the social and environmental conditions of the areas most directly affected by the pipeline; and,
- advance national economic and energy interests and maximize related industrial benefits.

Strategic Outcome and Program Activity Architecture (PAA)

The Northern Pipeline Agency has a single strategic outcome and a single program activity. Both are aligned with the Government of Canada's Strong Economic Growth outcome as per the Whole-of-Government Framework.

NPA Strategic Outcome:

Facilitate the planning and construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project while maximizing social and economic benefits and minimizing adverse social and environmental effects.

NPA Program Activity:

Regulate the planning and construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project.

Summary of Performance

2009-10 Financial Resources (\$ thousands)

Planned Spending*	Total Authorities	Actual Spending
264.2	660.1**	609.6

* The NPA recovers its costs from Foothills through existing authorities pursuant to section 29 of the Act and determined in accordance with section 24.1 of the *National Energy Board Act* and the National Energy Board Cost Recovery Regulations.

**In 2009-10, the Agency had a total spending authority of \$660,059. The spending authority was increased in anticipation of an increase in Agency workload to support a high level of planning activity for the pipeline.

2009-10 Human Resources (FTEs)

Planned	Actual	Difference
2	4	2

Strategic Outcome: Facilitate the planning and construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project while maximizing social and economic benefits and minimizing adverse social and environmental effects.

Performance Indicators	Targets	2009-10 Performance
Continue to address regulatory certainty by establishing a framework to proceed with the completion of the Foothills project	Develop a regulatory framework that accommodates modern environmental practices, and the interests of territorial and provincial governments and First Nations	Maintained a regular dialogue with key stakeholders, and developed potential approaches for a modern environmental, socio-economic and technical update and review
Effectively respond to any regulatory filings by Foothills	Respond in a timely manner with consideration to the overall Project schedule	Foothills did not file any regulatory filings in this review period
Improved readiness of the Agency to respond to the proponent's plans for Phase II of the project	Engage a full-time Assistant Commissioner, Manager, Assistant and Researcher Arrange with the NEB and NRCan for part-time analytic, technical and legal assistance	NPA full-time employees were engaged NPA entered into MOUs with NRCan and NEB for the part-time use of 3-4 employees, whose costs will be recovered from Foothills The NPA also renewed its Service Agreement with NRCan for various corporate and financial services
Make certain that the <i>Act</i> is properly administered	Continued to operate as a separate agency, ready to respond to increased levels of project activity	NPA maintained awareness of the <i>Act</i> and undertook actions as required, including administration of the Yukon land easement agreement

Program Activity	2008-09 Actual Spending	2009-10 (\$ thousands)				Alignment to Government of Canada Outcomes
		Main Estimates	Planned Spending	Total Authorities	Actual Spending	
Regulate the planning and construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project	139.7	264.2	264.2	660.1	609.6	<i>Strong Economic Growth -</i> Completing the Foothills project will result in a \$15 billion capital investment in pipeline infrastructure in Canada. It will enhance North American natural gas supply, make available increased petro-chemical feed-stocks, increase the utilization of existing Canadian pipeline infrastructure, and facilitate the development of new northern Canadian natural gas supplies.
Total	139.7	264.2	264.2	660.1	609.6	

Contribution of Priorities to Strategic Outcome

Operational Priorities	Type	Status	Linkages to Strategic Outcome
Respond to the reactivation of Phase II of the Foothills pipeline	Ongoing	Mostly met – NPA met regularly with Foothills, coordinated inter-departmental meetings and began First Nations engagement	Facilitating the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline Project
Understand the applicability of current environmental assessment legislation to a Foothills review process	New	Mostly met – Facilitated and received analysis of applicability of existing environmental assessment legislation	
Develop a modern regulatory framework	Ongoing	Mostly met – Developed possible approaches for a modern review of updated environmental and socio-economic information and review of regulatory filings	
Ensure the NPA has sufficient staff to plan for the review of technical, environmental and socio-economic plans and reports related to an Alaska Highway natural gas pipeline, and to engage with other parties that would be involved in the planning and the construction of this phase of pipeline development	New	Met all – At the end of fiscal year, the NPA had four full-time staff and four part-time staff As project activity increases, additional staff will be required to carry out the planning and regulatory work	

Risk Analysis

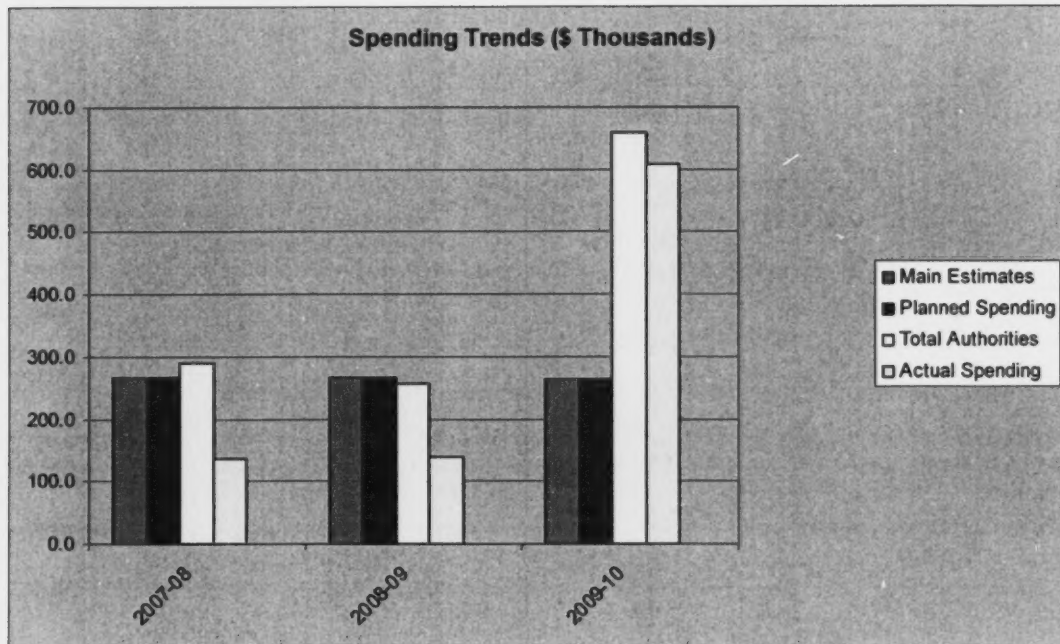
TransCanada, in partnership with Exxon Mobil, is completing its 2010 open season process and is undertaking studies and planning for its Alaska Gas Pipeline project. TransCanada has communicated its project time-line to the Agency and has asked the Agency to undertake various preparatory activities. This includes the Agency providing certainty on the process that will be used to review all of the technical, financial, environmental, socio-economic and other information that TransCanada will be required to file to proceed with the Foothills project. In the future, the Agency will be consulting with Aboriginal people on the project review, as well as on a number of other matters.

The challenge for the Agency is to plan for an efficient and effective review of updated environmental, socio-economic and technical information taking into account changes since the *Northern Pipeline Act* came into force and the pipeline was certificated in the late 1970s. Some of the changes in Yukon include new environmental legislation, devolution of some federal responsibilities, and settlement of most of the First Nations land claims along the pipeline route.

The Agency also faces the ongoing challenge of keeping up with the pace of the project, i.e., to have sufficient human and financial resources to complete its analysis and Aboriginal consultations, to make the necessary preparations, and ultimately to complete a technical, environmental and socio-economic review of reports and plans that will be submitted by Foothills.

Failure to make timely preparations could jeopardize the Government of Canada's performance of its responsibilities under the *1977 Canada-US Agreement* and the *Northern Pipeline Act*, and pursuant to TransCanada's rights related to its existing certificates of *Public Convenience and Necessity*, and its existing pipeline easement in the Yukon.

Expenditure Profile



Voted and Statutory Items

(\$ thousands)					
Vote # or Statutory Item (S)	Truncated Vote or Statutory Wording	2007-08 Actual Spending	2008-09 Actual Spending	2009-10 Main Estimates	2009-10 Actual Spending
1	Operating expenditures	134.6	138.7	244.0	574.7
5	Grants and contributions	-	-	-	-
(S)	Contributions to employee benefit plans	1.9	1.0	20.2	34.9
(S)	Minister of Natural Resources Canada — Salary and motor car allowance	-	-	-	-
Total		136.5	139.7	264.2*	609.6

*The NPA also received \$369k in additional appropriations for fiscal year 2009-10, through the supplementary estimates process.

Spending in 2009-10 was significantly higher than in the two previous years.

SECTION II: ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME

Strategic Outcome

Facilitate the planning and construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project while maximizing social and economic benefits and minimizing adverse social and environmental effects.

Program Activity by Strategic Outcome

Program Activity: Regulate the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline Project. This program activity is aligned with the Government of Canada's Strong Economic Growth outcome.					
2009-10 Financial Resources (\$ thousands)			2009-10 Human Resources (FTEs)		
Planned Spending	Total Authorities	Actual Spending	Planned	Actual	Difference
264.2	660.1	609.6	2	4	2

Expected Results	Performance Indicators	Performance Status	Performance Summary
In concert with other federal government departments, the NPA will develop a regulatory framework which accommodates modern environmental practices, takes into account the rights of First Nations communities, and considers the interests of provincial-territorial governments, so as to be prepared to effectively regulate and to facilitate the planning and the construction of the Foothills pipeline. The NPA's activities are dictated by the timing and pace of the planning and construction of the pipeline.	Regulate the planning and construction of the Canadian portion of the Alaska Pipeline Project.	Met all – no construction took place during the 2009-10 fiscal year.	The NPA responded to requests from Foothills, First Nations Yukon Government, United States and others.
	Effectively respond to any regulatory filings by Foothills and make certain that the Act is properly administered.	Met all – the NPA continued to administer the Act. There were no formal regulatory filings requiring response.	The NPA oversaw administration of the Act and associated agreements.
	Identify possible approaches for a modern environmental, socio-economic and technical review of the project.	Mostly met - the Agency has conducted a legal review, and has developed some possible approaches to updating environmental and socio-economic information, and reviewing required project filings.	The NPA has made progress in defining options for further consideration.
	Refine plans and state of readiness through staffing to respond and to enhance its engagement with other participants that would be involved in the planning and the construction of this phase of pipeline development.	Met all – the NPA hired a full-time Assistant Commissioner, Program Manager, Researcher and Administrative Assistant. It made inter-agency arrangements for policy, technical and legal support.	The NPA now has a core team of full and part-time staff.

Benefits for Canadians

An Alaska Highway natural gas pipeline would be the largest private sector infrastructure investment in North American history. Such a project would make considerable contributions towards Canada's strategic outcome of Strong Economic Growth.

Total project costs are estimated at \$31–42 billion, which includes the gas plant facility at Prudhoe Bay, Alaska, as well as the pipeline through Alaska, the Yukon and northeast British Columbia. The Canadian pipeline portion of the project is estimated at \$15 billion.

Current project timing would see Foothills make major regulatory filings in mid-2012. Prior to this, the NPA anticipates that a process for updating environmental and socio-economic data and information will occur. Full regulatory approvals are expected in 2014, with pre-construction activities taking two years, and then construction commencing in 2016. First natural gas flows are expected in 2020.

Natural gas from Alaska will contain significant amounts of ethane (in addition to methane, the principle hydrocarbon in natural gas). Ethane is the principle feedstock for the Alberta petrochemical industry, and the Alaska Pipeline Project would make a major new source of ethane commercially available.

In addition, the Alaska gas volumes of 4–5 billion cubic feet (BCF) per day are significant relative to the current Canadian natural gas production of 16.5 BCF per day. Canadian production of conventional natural gas is declining, leaving surplus capacity on Canadian natural gas transmission infrastructure. Alaska gas has the potential to help re-fill existing Canadian pipelines, which would reduce tolls for existing users.

In addition to the macroeconomic benefits associated with an Alaska Highway pipeline, there would also be significant regional economic benefits including property taxes and the potential for developing natural gas resources in the Yukon.

Performance Analysis

In working toward realization of its strategic outcome, the Agency's principal task for the 2009-10 fiscal year was to oversee the administration of the *Northern Pipeline Act* and continue preparing for regulatory filings by Foothills. With the renewed interest in the commercialization of Alaska gas the Agency was called on to provide information including an examination of the commitments of the Government of Canada that are embodied in the Act and changes to other legislation that have occurred since the pipeline was certificated.

The agreements that are currently in place with NRCan and other government departments continued to facilitate efficiencies in the administration of the Act. An administrative agreement exists between the Yukon Territory Government and the Agency to facilitate the administration of

an easement agreement related to land access rights granted to Foothills for the pipeline. The Agency collected the annual fee of \$30,400 for the Yukon easement from Foothills and redistributed a portion to the Yukon Territory Government. These transactions are excluded from the calculations of recoverable costs mentioned in Section III on Financial Performance.

There are no specific RPP commitments or parliamentary committee recommendations to be implemented.

Lessons Learned

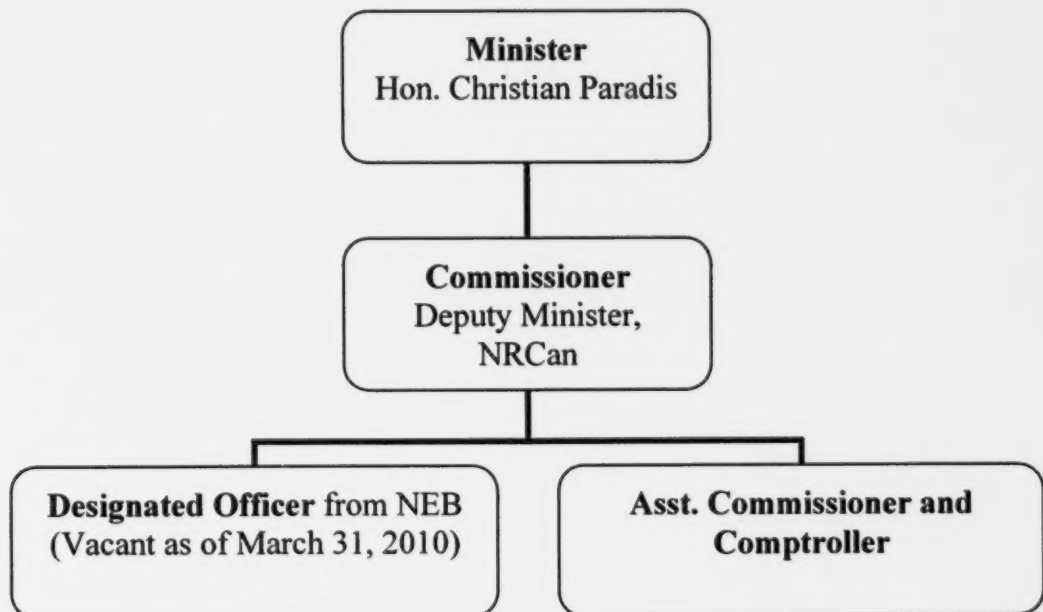
In the fiscal 2009-10 period, most Northern Pipeline Agency activity was planning and administrative in nature. Therefore, there are no lessons learned to report at this time.

SECTION III: SUPPLEMENTARY INFORMATION

Organizational Information

The Northern Pipeline Agency has been designated as a department for the purposes of the *Financial Administration Act*. The NPA currently reports to Parliament through the Minister of Natural Resources Canada who is responsible for the management and direction of the NPA. The NPA has one senior officer, a Commissioner appointed by the Governor in Council. The Commissioner is currently the Deputy Minister of NRCan. The Commissioner has appointed a full-time Assistant Commissioner of the Agency.

The figure below provides a schematic of the reporting relationship of the key officers responsible for the Agency's program activity.



Financial Highlights / Highlights Chart

The Northern Pipeline Agency's audited financial statements were not ready at the time this report was prepared. They are now available at the following link: NPA 2009-10 Financial Statements (<http://nrcan.gc.ca/nrcancorp/com/resoress/dprmr/npaapn2010-eng.php>)

Contacts for Further Information

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